



An Article Of Interest...

NAR Commends Congress For Moving to Eliminate "Phantom Tax" on Foreclosures and "Short" Sales

WASHINGTON, April 18, 2007 -

The National Association of Realtors® supports legislation that would change the current law that forces individuals to pay an income tax when they have had a part of a mortgage loan forgiven or have been forced to foreclose because of their inability to pay their mortgage.

Since the early 1990s, NAR has actively engaged in efforts to change this law and is encouraged by the actions taken today by the House of Representatives with the introduction of H.R. 1876, the Mortgage Cancellation Tax Relief Act.

"How can we add insult to injury? As if losing your home isn't painful enough, to turn around and tax a family on what the government calls income is distressing," said NAR president, Pat Vredevoogd Combs. "NAR is especially thankful to Congressmen Rob Andrews (D-N.J.) and Ron Lewis (R-Ky.) for introducing the bill and we look forward to working with them to see that it quickly is passed."

When homeowners with only a small amount of equity have no choice but to sell their home, stagnant or declining property values can cause them to fall short of the amount needed to pay off a mortgage (short sale). In addition, a rise in foreclosures is anticipated and already many families have been harmed by sub prime mortgages and are finding themselves in foreclosure.

Given that growing condition, NAR has been working hard to help more homeowners and their families keep their home and to make the prospect of losing their home less burdensome. "Clearly, it is unfair to tax people on a phantom income, particularly right at the time they have experienced a serious economic loss and probably have no cash with which to pay the tax," said Combs.

The current tax code requires a lender who forgives debt to provide a Form 1099 to the IRS stating the amount the borrower has been forgiven. That disclosure applies whether it is a short sale, foreclosure, deed in lieu of foreclosure or any similar arrangement that relieves borrowers of the obligation to pay some portion of their debt. If the property is sold at foreclosure or is sold for less than was borrowed, that difference is considered income and is subject to the tax.

The Andrews-Lewis bill would ensure that any debt forgiven on disposition of a principal residence will not be taxed. "NAR stands strongly behind the Congressmen and the bill they introduced today. It addresses a fundamental unfairness in the lives of those who find themselves in truly unfortunate circumstances. Realtors® are all about building communities--not just selling homes—and helping to prevent the dream of homeownership from becoming a nightmare" said Combs.

The National Association of Realtors®, "The Voice for Real Estate," is America's largest trade association, representing more than 1.3 million members involved in all aspects of the residential and commercial real estate industries.

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